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## China, Peoples Republic of

### Poultry and Products

### Annual Poultry Report--Final

### 2004

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**Report Highlights:**

Since February 7, 2004, China has banned imported US poultry and products. It still remains uncertain when China will reopen the market. During 2005 China's poultry production is forecast to recover to 9.9 MMT, about equal to the pre-avian influenza 2003 level. Until the Chinese Government permits imports of US poultry, poultry imported from Brazil and Argentina will continue to increase.

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Includes PSD Changes: Yes  
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Annual Report  
Beijing [CH1]  
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**Table of Contents**

<b>Executive Summary.....</b>	<b>3</b>
<b>Broiler production forecast to recover to the pre-AI level in 2005 .....</b>	<b>4</b>
<b>Policies for poultry production support during and after HPAI .....</b>	<b>4</b>
<b>Animal disease cause US\$ 2.88 billion losses a year .....</b>	<b>5</b>
<b>Consumption forecast to increase 3 percent in 2005, but still lower than 2003 level .....</b>	<b>5</b>
<b>Prices gone up considerably .....</b>	<b>5</b>
<b>Trade Policy Update .....</b>	<b>5</b>
<b>Imports estimated to decrease 55 percent in 2004 .....</b>	<b>6</b>
<b>Import smuggling serious .....</b>	<b>6</b>
<b>Exports estimated to increase 13 percent in 2004 and 11 percent in 2005 .....</b>	<b>6</b>
<b>Poultry egg.....</b>	<b>7</b>

## Executive Summary

China has banned imported US poultry due to HPAI in the US since last February. Bilateral talks are continuing. An official Chinese avian influenza team returned from a technical visit to the US during the end of August 2004. The government will consider removing its ban on imported US poultry after evaluation of the US AI situation.

During 2003 China requested approval to export cooked poultry to the US. The poultry inspection equivalency evaluation process began during a visit by Food Safety Inspection Service officials during May and June 2004. A follow-up audit is scheduled for December 2004.

China's broiler production in 2004 is estimated to fall 2-3 percent due to the impact of highly pathogenic avian influenza (HPAI) in China during January to March 2004. But FAS Beijing forecasts production in 2005 to increase 2-3 percent from 9.7 MMT to 9.9 MMT with the help of favorable policies and strengthened consumption. As a result, China's broiler production during 2005 is forecast to recover to the pre-avian influenza 2003 level.

China's broiler imports during 2004 are forecast to fall 55 percent from 483,000 MT to 220,000 MT due to decreased imports of US poultry products. Imports in 2005 are forecast to reach 300,000 MT due to a recovery in consumer demand. US poultry imports are forecast at zero in the 2005 estimate. Recovered domestic demand and the reopening of the Japanese market for cooked poultry will benefit China's poultry industry. Brazil and Argentina have filled some of the supply void since China imposed the ban on US products.

China will implement a new import meat quarantine regulation, effective November 1, 2004, that requires all meat and poultry products re-exported through Hong Kong be pre-inspected by a Hong Kong Inspection company. The regulation is aimed to decrease smuggling activities. As a result, direct imports of poultry into the mainland may increase in the future. Please refer to FAS Beijing's report on the new regulation, CH4032, for more information.

FAS Beijing uses the Global Trade Atlas (GTA) to derive trade figures for the PSD. This method avoids under-reporting of South America's exports to China because a significant volume of South American poultry is smuggled into China as a US product in order to enter the retail sector. By Chinese law, only US products are permitted direct access to the retail sector. Hong Kong re-export number is added up to the world direct exports to China. Broiler import and export numbers are on ready-to-eat basis.

**Broiler production forecast to recover to the pre-AI level in 2005**

FAS Beijing forecasts production in 2005 to increase 2-3 percent from 9.7 MMT to 9.9 MMT as domestic demand and exports will recover. Thus, broiler production during 2005 is forecast to recover to the pre-avian influenza 2003 level.

Although China's broiler production in 2004 is recovering from the impact of HPAI in China, the poultry industry remains fragile. During HPAI, 20 percent of small household raisers abandoned poultry production. Some of them are still hesitating to fully resume production. Others have switched from poultry to swine for fear of new AI outbreaks. As a result, the overall output level is estimated several percentage points below last year. FAS Beijing adjusted downward broiler production from the previous PSD number of 10 MMT to 9.7 during 2004.

China's Ministry of Agriculture (MOA) indicates that China's total poultry production in the first quarter of 2004 decreased 4 percent. After the government stamped-out HPAI and gave favorable policies to support poultry production in the affected areas, demand has been recovering. Total poultry production for the first half of 2004 recovered to a net decline of one percent. However, other poultry species have recovered quicker than broiler.

Broilers are mainly produced in Shandong, Henan, Hebei, Jiangsu, Liaoning, Sichuan and Guangdong provinces, accounting for 60 percent of the total. Western broilers are concentrated in Shandong, Beijing and the Northeast, while domestic yellow broilers are concentrated in southern China, especially Guangdong. According to the industry, poultry sector provided 70 million employments of farmers last year and 23 million of them directly involved in poultry cultivation.

During the last couple of years, duck production has grown faster than broilers. Broiler inventory and slaughter numbers have dropped slightly over the year, while duck inventory and slaughter numbers have increased from 14.3 percent to 18 percent and from 17 percent to 18 percent. FAO data also shows that China's other poultry meat production share increased 5-6 percent in the last ten years. This trend will continue in the future due to the Government policy to stabilize broiler production and reduce the feed grain burden. Other poultry consumption has become more popular as this trend spreads from the South, where duck normally consumed, to the North. Prosperous duck and goose down industry further helped the trend. According to the industry, poultry sector provided totally 70 million employments last year. Out of this, 23 million directly involved in poultry cultivation.

Two years ago, MOA, CAAS, China Agricultural University and provincial livestock bureaus started a nationwide survey on domestic poultry genetic breeding resources. The results show that in China there are 81 breeding chicken stocks (five layer, four layer-oriented, 15 broiler stocks, 1 broiler-oriented, 9 medical usages, 31 layer/broiler, and 15 other stocks). There are 26 duck breeding stocks (9 layer, 10 layer/meat, 2 meat stocks, 1 "Ban duck" for special dish, and 3 other stocks). And there are 26 goose-breeding stocks (18 meat, 5 meat/down industry and 3 layer). Some of the broiler stocks are well-known high quality yellow breeds that are becoming more and more competitive with Western broilers.

**Policies for poultry production support during and after HPAI**

During China's HPAI outbreak, over 9 million birds were culled. The Government provided subsidies to farmers for culled birds or compulsory vaccination. The Government allowed major poultry farms and processing plants to extend their payback period of bank loans and get a deducted interest for six months. Income tax is exempted for poultry farms and processing plants for the whole year. Export plants could get their value-added tax (VAT)

reimbursed right after they paid the tax and enjoy free quarantine inspection fees. Part of other taxes, such as land usage, house-rental, as well as administrative fees, was also reduced. These factors explain why China's poultry production did not decrease as much as previously expected.

#### **Animal disease cause US\$ 2.88 billion losses a year**

MOA officials state that China suffers as high as RMB 23 billion (US\$ 2.88 billion) in annual losses due to animal and bird diseases. HPAI outbreaks in 2004 caused RMB 18 million losses (US\$ 2 billion). Many countries have closed their fresh or frozen meat markets to China due to health concerns. In response to this, MOA recently set up a veterinary bureau and appointed a Chief Veterinarian, for the first time, to strengthen animal disease control in the future.

#### **Consumption forecast to increase 3 percent in 2005, but still lower than 2003 level**

Broiler meat consumption in 2004 is estimated to decrease 5 percent from 9.99 MMT to 9.48 MMT due to HPAI impact. Consumption for 2005 is forecast to increase 3 percent to 9.8 MMT, but this figure is still lower than the level of 2003. Although poultry consumption has been recovering, AI outbreaks have resulted in some consumers eating more red meat.

Broiler meat is mainly distributed through super markets, hotels and high-end restaurants, foreign fast food chains or exported to other countries. The spent hens number in China is unknown. However, an industry source estimates that half of spent hens are sold on free markets, because most households consumers prefer to buy spent hens and have them slaughtered on the spot. They also believe fresh hens taste better.

According to the industry, China's annual chicken paw demand is 1 MMT. Domestic self-sufficiency is 70 percent. The other 30 percent must be met by imports. This will continue to drive large import levels during the coming years.

#### **Prices gone up considerably**

MOA price tables (below) show that average broiler meat and live poultry prices went up 29 percent and 14 percent respectively in June 2004, compared the same month of 2003. The industry indicated that prices of middle part of chicken wings for the first six months were 22,000 RMB/MT. Wholesale chicken paw prices were 6000-7000 RMB/MT in 2001 and 8000-9000 RMB/MT in 2002. Market prices for chicken paws once rose up to 12,000-14,000 RMB/MT in 2003. In the first six months of 2004, chicken paw and offal prices for the first raised 30-50 percent from 2003. Current chicken paw and offal prices domestic market are 12,000 RMB/MT.

Considerable price increases for feed grains and materials since the end of 2003 have caused production costs to rise. Recovered demand and lagging broiler meat supply after HPAI, as well as higher international poultry prices, have all helped push China's poultry prices up. Since several public holidays are approaching, as a result, high poultry prices are expected to maintain probably at least into the first quarter of 2005.

#### **Trade Policy Update**

Since February 7, 2004, China has banned imported US poultry and products due to the outbreak of low pathogenic avian influenza in the United States. In response to US request to China to reopen its market, China sent a joint AI study group to the US comprised of AQSIQ and MOA officials to conduct technical studies during August/September 2004.

When China completes its assessment of the US avian influenza situation, the government will consider revising its domestic law, a procedure involving the Ministry of Agriculture, the

General Administration of Quality Supervision Inspection and Quarantine (AQSIQ), the Ministry of Health, the State Food and Drug Administration and ultimately the State Council.

During 2003 China requested USDA approval to export cooked poultry to the United States. The evaluation of China's poultry inspection equivalency began in March, and a Food Safety Inspection Service team visited China for 3 weeks during May and June. Then, during August and September a team of Chinese officials visited the United States to complete the equivalency questionnaires. A final audit team is scheduled to come to China during December 2004. Once USDA's review is completed, a public comment period is required under the Federal Code of Regulations before final approval to import China's cooked poultry products is issued. This rule-making process will take time.

### **Imports estimated to decrease 55 percent in 2004**

China's broiler imports during 2004 are forecast to fall 55 percent from 483,000 MT to 220,000 MT due to decreased US imports. Imports in 2005 are forecast to reach 300,000 MT due to a recovery in consumer demand. US poultry imports are forecast at zero in the 2005 estimate. Recovered domestic demand and the reopening of the Japanese market for cooked poultry will benefit China's poultry industry. Brazil and Argentine have filled some of the supply void since China imposed the ban on US products.

A MOA source indicates the top five importing provinces in the first six months were Guangdong, Shanghai, Zhejiang, Liaoning and Jiangsu, accounting for 97 percent of total imports. However, except Guangdong with a 68 percent decrease, the other four provinces all witnessed increases. General trade accounted for 99.5 percent. Although bilateral talks are going on, it is hard to tell when China will re-open its poultry markets for the US.

### **Import smuggling serious**

Smuggling of poultry products is more serious than other meats, and this activity has recently received wide media attention in China. The principal smuggled products are chicken paws, wings and offal, which are Chinese consumers' favorite products, while Western countries do not consume them. Broiler production costs in China are generally 1.5-2 times higher than that of the US and Europe. Even through official channels, imported chicken paws and offal are still RMB1,000-2,000 cheaper, let alone smuggled products. Big demand and profitable margin, combined with import constraints by Automatic Registration Certificate issued by MOFCOM and Import Quarantine Permit issued by AQSIQ, lead to constant smuggling. Most smuggled products came through Hong Kong by repacking, reloading and document changing.

To crack down on smuggling, China revised its import meat quarantine regulations to collaborate with Hong Kong. The new rule, effective on November 1, 2004, requires all meat and poultry products re-exported through Hong Kong be pre-inspected by the Hong Kong Inspection Company authorized by AQSIQ. Containers should be sealed and documents stamped immediately after pre-inspection before resent to the Mainland. This may encourage direct imports in the future.

### **Exports estimated to increase 13 percent in 2004 and 11 percent in 2005**

China's broiler meat exports for 2004 are forecast to increase 13 percent from 388 in 2003 TMT to 440 TMT in 2004, because the largest export market, Japan, has reopened its cooked broiler market for China, while the second largest export market, Hong Kong, has fully reopened for all kinds broiler products. Broiler exports for 2005 are forecast to increase 11 percent from 440 TMT to 490 TMT as competitors may return to export markets. Current top exporters are Shandong, Guangdong, Liaoning, Henan, Hebei, Beijing and Shanghai, accounting for over 90 percent of total exports.

**Poultry egg**

China's poultry egg production in 2005 is forecast to increase 5 percent from 26 MMT to 27 MMT, due to recovered domestic demand and picking up exports after HPAI.

Poultry egg production for 2004 is estimated to remain at least at the same level of 2003 even it was impacted by HPAI. According to MOA, although egg layer inventory in the first quarter of 2004 decreased 6 percent and poultry egg production decreased 3.9 percent over the same period of 2003, the second quarter production made up the losses due to strong demand and favorable prices. Most trade contacts consider poultry egg production would be better in the remaining months.

Industry experts think that, normally, China's broiler production cycle is three years with two rotations of layers. Now poultry egg production is at a rising stage. With unexpected SARS and HPAI in the last two years running, and scared by considerably feed prices up, some farmers have lost the chance to increase layer crop in time. Strong demand and short supply may maintain this rising stage longer than normal years

China's egg imports are very small. It is a net fresh egg export country. Fresh egg exports accounted for over 80 percent of its total egg product exports. However, the pace of growth for export in 2004 is estimated to drop from 25 percent in 2003 to 2 percent in 2004 due to HPAI impact. As a result, export number from 2004 will only increase from 1.57 billion pieces in 2003 to 1.6 billion pieces in 2004. Exports for 2005 are forecast to increase over 10 percent to 1.76 billion pieces, due to export market recovery. Main export provinces are Guangdong, Shandong, Hubei, Liaoning, as well as Beijing City. The top three export markets are Hong Kong, Macau and Japan. This trend will continue in the next couple of years, because China's egg processing is only 5 percent of its total fresh egg production, while processing is one-third in the US, 20-30 percent in Europe and 50 percent in Japan. (End report)

# PSD Poultry PSD Table

Country

China, Peoples  
Republic of

Commodity

Poultry, Meat, Broiler

(1000 MT)(MIL HEAD)

	2003 USDA Official [Old]	Revised Post Estimate [New] 01/2003	2004 USDA Official [Old]	Estimate Post Estimate [New] 01/2004	2005 USDA Official [Old]	Forecast Post Estimate [New] 01/2005	UOM MM/YYYY
Market Year Begin							
Inventory (Reference)	0	0	0	0	0	0	(MIL HEAD)
Slaughter (Reference)	0	733	0	720	0	733	(MIL HEAD)
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	10000	9898	10000	9700	0	9990	(1000 MT)
Whole, Imports	0	0	0	0	0	0	(1000 MT)
Parts, Imports	454	483	220	220	0	300	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	454	483	220	220	0	300	(1000 MT)
TOTAL SUPPLY	10454	10381	10220	9920	0	10290	(1000 MT)
Whole, Exports	0	0	0	0	0	0	(1000 MT)
Parts, Exports	388	388	310	440	0	490	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	388	388	310	440	0	490	(1000 MT)
Human Consumption	10066	9993	9910	9480	0	9800	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	10066	9993	9910	9480	0	9800	(1000 MT)
TOTAL Use	10454	10381	10220	9920	0	10290	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	10454	10381	10220	9920	0	10290	(1000 MT)
Calendar Yr. Imp. from U.S.	0	170	0	170	0	0	(1000 MT)



China Import Statistics								
UDG: Broiler Meat,								
Year To Date: January - June								
Partner Country	Unit	Quantity			% Share			% Change
		2002	2003	2004	2002	2003	2004	2004/2003
World	T	246,017	238,840	122,002	100	100	100	-48.92
United States	T	225,371	237,138	71,527	91.61	99.29	58.63	-69.84
Argentina	T	3,585	327	28,790	1.46	0.14	23.60	8711.71
Brazil	T	-	-	20,656	-	-	16.93	0
Canada	T	953	1,241	775	0.39	0.52	0.64	-37.56
Thailand	T	3,262	26	173	1.33	0.01	0.14	555.54

China Import Statistics								
UDG: Broiler Meat,								
Year To Date: January - June								
Partner Country	United States Dollars			% Share			% Change	
	2002	2003	2004	2002	2003	2004	2004/2003	
World	190,268,328	169,707,701	100,365,462	100	100	100	-40.86	
United States	172,974,719	168,633,526	56,204,837	90.91	99.37	56	-66.67	
Argentina	2,575,438	194,568	24,121,078	1.35	0.11	24.03	8	
Brazil	-	-	19,079,033	0	0	19.01	0	
Canada	780,009	747,077	726,870	0.41	0.44	0.72	-2.7	
Thailand	2,196,431	21,803	149,278	1.15	0.01	0.15	584.67	

China Import Statistics								
UDG: Broiler Meat,								
Calendar Year: 2001 - 2003								
Partner Country	Unit	Quantity			% Share			% Change
		2001	2002	2003	2001	2002	2003	2003/2002
World	T	644,909	498,897	565,531	100	100	100	13.36
United States	T	531,764	471,917	545,398	82	95	96	15.57
Brazil	T	9	200	8,397	-	0	1	4098.67
Canada	T	18,736	2,045	4,576	3	0	1	123.77
Argentina	T	11,670	4,149	4,236	2	1	1	2.11
Thailand	T	14,683	5,473	2,535	2	1	0	-53.67

China Import Statistics UDG: Broiler Meat, Calendar Year: 2001 - 2003							
Partner Country	United States Dollars			% Share			% Change 2003/2002
	2001	2002	2003	2001	2002	2003	
World	410,839,581	378,706,060	413,611,975	100	100	100	9.22
United States	336,026,701	356,939,045	398,218,690	81.79	94.25	96.28	11.56
Brazil	7,190	132,392	6,997,544	0	0.03	1.69	5185.47
Canada	12,713,360	1,628,989	3,191,168	3.09	0.43	0.77	95.9
Argentina	7,088,419	2,989,310	2,894,620	1.73	0.79	0.7	-3.17
Thailand	8,746,873	3,609,895	1,997,484	2.13	0.95	0.48	-44.67

**World Trade Atlas  
Product Group  
Total HK Re-Exports of Broiler  
Quantity  
January - June**

					% Change
Rank	Country	- KG - 2002	- KG - 2003	- KG - 2004	04/03
0--	The World--	289,512,230	251,868,413	84,685,834	-66.38
1	China	282,504,707	238,645,325	71,604,764	-70

Source: Hong Kong Census and Statistics Department

**World Trade Atlas  
Product Group  
Total HK Re-Exports of Broiler  
Quantity (Revised)  
January - December**

					% Change
Rank	Country	- KG - 2001	- KG - 2002	- KG - 2003	03/02
0--	The World--	681,743,275	578,375,746	520,931,061	-9.93
1	China	671,351,718	558,754,630	504,236,291	-9.76

Source: Hong Kong Census and Statistics Department

World Trade Atlas  
Product Group  
Hong Kong Re-Exports of Chicken Paws  
Quantity  
January - June

					% Change
Rank	Country	- KG - 2002	- KG - 2003	- KG - 2004	04/03
	0--The World--	127,219,695	126,568,906	42,184,613	-66.67
	1 China	126,462,294	124,734,785	37,271,502	-70.12

Source: Hong Kong Census and Statistics Department

World Trade Atlas  
Product Group  
Hong Kong Re-Exports of Chicken Paws  
Quantity (Revised)  
January - December

					% Change
Rank	Country	- KG - 2001	- KG - 2002	- KG - 2003	03/02
	0--The World--	354,829,780	271,707,623	262,948,956	-3.22
	1 China	354,044,446	267,821,025	260,799,417	-2.62

Source: Hong Kong Census and Statistics Department

CHINA'S RETAIL BROILER MEAT PRICES ON AVERAGE (2002-2004)

(RMB/KG, US\$ 1 = 8.27)

	2002	2003	2004	% Chang 2004/03
January	9.64	9.26	10.19	-2.27%
February	9.83	9.43	9.22	-2.23%
March	9.62	8.98	9.36	4.23%
April	9.22	8.93	9.85	10.30%
May	9.29	8.78	9.89	12.64%
June	9.12	8.77	11.33	29.19%
July	9.24	9.04		
August	9.26	9.34		
September	9.35	9.22		
October	9.17	9.52		
November	9.32	9.92		
December	9.28	9.84		

## CHINA'S RETAIL LIVE CHICKEN PRICES ON AVERAGE (2002-2004)

(RMB/KG, US\$ 1 = 8.27)

	2002	2003	2004	% Chang 2004/03
January	9.64	9.26	10.25	10.69%
February	9.83	9.43	9.33	-1.06%
March	9.62	8.98	9.29	3.45%
April	9.22	8.93	9.64	7.95%
May	9.29	8.78	9.79	11.50%
June	9.12	8.77	10.03	14.37%
July	9.24	9.04		
August	9.26	9.34		
September	9.35	9.22		
October	9.17	9.52		
November	9.32	9.92		
December	9.28	9.84		

Source: The Ministry of Agriculture

## CHINA'S RETAIL EGG PRICES ON AVERAGE (2002-2004)

(RMB/KG, US\$ 1 = 8.27)

	2002	2003	2004	% Chang 2004/03
January	5.58	5.49	6.27	9.65%
February	5.63	5.42	5.95	9.78%
March	5.31	5.14	5.94	15.56%
April	5.39	5.05	5.99	18.61%
May	5.41	4.97	6.00	20.72%
June	5.48	5.01	6.42	28.14%
July	5.37	4.94	6.43	30.16%
August	5.6	5.33		
September	5.73	4.63		
October	5.61	5.73		
November	5.5	6.23		
December	5.49	6.13		

Source: The Ministry of Agriculture

## China's M.F.N.Tariff Rate of Chicken Products, 2001 - 2004 (Based on Weight)

(Unit RMB/KG)

HS Codes						%Change
		2001	2002	2003	2004	2004/03
2007.1200	frozen whole broiler	1.6	1.6	1.3	1.3	0.00%
2007.1411	frozen broiler cuts with bones	1.2	1	0.8	0.6	-25.00%
0207.1419	frozen broiler cuts, boneless	2.7	1.5	1.2	1	-16.67%
0207.1421	frozen broiler wins	2.3	1.2	1	0.9	-10.00%
0207.1429	frozen wingtips, paws, liver	1	0.8	0.6	0.5	-16.67%
0504.0021	broiler gizzard	1.7	1.7	1.4	1.4	0.00%

Source: China Customs